ORIGINAL

FRED WILLIAMSON & ASSOCIATES, INC.
Telecommunications Management Services

Received & Inspected
JUN 26 2012
FCC Mail Room

EX PARTE

Monday June 25th, 2012

EX PARTE OR LATE FILED

Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street SW
Washington, DC 20554

Re: Notice of *ExParte*:
Allband Communications Cooperative Petition Waiver of Part 54.302 and Framework to Limit Reimbursable Capital and Operating Costs

FCC Dockets:
WC#10-90; GN#09-51; WC#07-135; WC#05-337; CC#01-92; CC#96-45; WC#03-109; WT#10-208

Dear Ms. Dortch,

On Friday June 15th, 2012, the Wireline Competition Bureau (WCB) requested a conference call to further discuss Allband Communications Cooperative's Waiver Petition filed in the Dockets listed above.

On the call for Allband were:

- Ron Seigel – GM, Allband Communications
- Leora Prue – Allband Communications
- Don Keskey – Legal Counsel for Allband Communications
- Paul Cooper – President, FWA, Inc. (Consultants for Allband)
- Tim Morrissey – VP, FWA, Inc. (Consultants for Allband)
- Jason Palmer – FWA, Inc. (Consultants for Allband)
- Tom Karalis – FWA, Inc. (Consultants for Allband)
- Wayne Gatlin – FWA, Inc. (Consultants for Allband)

For the WCB:

- Carol Mattey
- Amy Bender
- Gary Seigel
- Soumitra Das
- Susan Stevens-Miller
- Katie King

During and subsequent to the conference call, the WCB Staff requested additional information from Allband, which Allband has provided as an attachment(s) to this letter. However, because of the sensitive and confidential and proprietary nature of the information, the attachment(s) will be filed in a redacted version.

The original, non-redacted documents will be mailed overnight to you so that they can be distributed to the WCB staff who participated on the conference call.

According to the FCC rules, this letter and a redacted version of the attachment(s) will be filed electronically in the dockets identified above.

Please let me know if you have any questions.

Sincerely,

Tom Karalis
Fred Williamson & Associates, Inc.

Copies for:

- Carol Mattey
- Amy Bender
- Gary Seigel
- Soumitra Das
- Susan Stevens-Miller
- Katie King

Infinity is not impossible
ALLBAND
COMMUNICATIONS COOPERATIVE

June 25, 2012

Received & Inspected
JUN 26 2012
FCC Mail Room

Ms. Amy Bender
Deputy Division Chief
Telecommunications Access Policy Division
Wireline Competition Bureau
Federal Communications Commission
445 12th Street SW
Washington, DC 20554

EX PARTE OR LATE FILED

Re: Request for Additional Information – Allband Petition for Waiver of Part 54.302 and Framework to Limit Reimbursable Capital and Operating Costs

Dear Ms. Bender:

Thank you for the opportunity to submit the following analysis and data in response to your email dated June 15, 2012 (**Attachment 1**). I have responded to your inquiry in the order it was submitted. Please note that several of our answers are supplanted with Attachments.

1. ***Audited financial statements for 2011.***

   Please see **Attachment 2**.

2. ***More details on corporate operations expenses and the growth of company (copies of any materials provided to RUS regarding expenditures).***

   Allband's corporate operating expenses consist of (a) expense allocated to executive payroll (b) accounting expense (both internally and externally, i.e. auditing expense (c) cost study expense (d) legal expense (e) insurance expense and (f) general & admin expense.

   Operating expenses totaling approximately $430K in 2009, up from $230K in 2008 were due to several factors which included, new outside plant and office staff (the cooperative was previously run by two people), administrative office leasing and expenses, marketing efforts to increase subscribership, legal expenses due to unfounded legal challenges from an ex-board member which led to a thorough analysis of the Cooperative's Board and Management general policies, higher cost study expenses and legal expenses related to regulatory waivers.

   Operating expenses decreased in 2010 to $378K due to a reduction in legal expenses and improved operating efficiencies.

   Operating expenses again increased in 2011 to approximately $415K due primarily to higher than anticipated legal and consulting fees to due to USF regulatory reform and inquiries.

Allband Communications Cooperative
7251 Cemetery Rd. • Curran, MI 48728 • Phone: 989-369-9999 • Email: info@allband.org • www.allband.org

3. ***More details on accounts payable (who are these payable to).***

   Please see **Attachment 3** for an itemized list of payables, which ties to Allband's 2009, 2010 and 2011 audited financials. Please note that a $174,000 payable was accrued by the auditor for Allband's NECA 2011 true-up in its 12-31-2010 audit which is not included in the 12-31-2010 payables in Attachment 3.

4. ***More details on materials and supplies on hand, i.e. inventory list summarized by types of materials and supplies (year end 2011 or current, whichever is easier), dollar amount of fiber in service, and RUS requirements regarding spares.***

   Please see **Attachment 4** for year-end 2011 inventory as submitted for Allband's 2011 audited financials. As of year-end 2011, Allband had $203,088.81 worth of materials and supplies. Allband maintains a network equipment inventory at its central office totaling $75,362.55 and retained $48,921.11 in fiber optic cable.

   Per RUS rules, borrowers must maintain a set of spare network cards to ensure network redundancy and prompt equipment failure recovery. More specifically, spares are kept on hand for Allband's soft switch and optical line terminal equipment.

   Per our 2011 Audit (**Attachment 2**), page 10, number 2, Allband showed $5,648,749 on its books for fiber optic cable assets in service.

5. ***Copies of loan agreements with John Reigle.***

   Please see **Attachment 5**.

Summarize in ex parte what was discussed and provide more details as indicated:

6. ***The details regarding the ownership of the one building which is used as a central office/storage space and the leasing of the second building which is used for administrative space and that Allband leases the building and equipment to install fiber (vehicles, backhoe, ploughs) from Northeast Michigan.***

   At the end of 2008, Allband management began assessing the operational autonomy of the cooperative. The cooperative's ability to operate efficiently and effectively during post loan years and without outside plant contractor assistance became a concern. More specifically, the cooperative needed to equip itself to handle outside plant requirements and properly staff the cooperative to maintain a high level of quality service while actively pursuing the growth the cooperative.

Allband's RUS Loan did not allocate enough funds to purchase equipment needed for outside plant construction and maintenance. In 2009, Allband entered into a leasing relationship with Northeast Michigan Drilling and Development (NMDD) and is now equipped to handle main line fiber construction, service drops, fiber splicing and general maintenance.

Additionally, Allband quickly outgrew the ability to use its loan funded central office for administration, and in order to ensure a high level of customer service and maintain growth, Allband leased land and a larger administrative/garage facility near its central office.

Allband was fortunate that it was able to secure leases, considering that most banks and leasing companies in this financial climate would be hard-pressed to offer the same leases that Allband acquired from NMDD.

7. ***Loans from John Reigle were obtained to cover operating expenses, and loans are expected to be paid off in next several months. Terms were negotiated between Ron and the Board.***

On December 31, 2007 the Allband Communications Cooperative Board of Directors approved and issued an unsecured promissory note to Allband President, John Reigle for access to $50,000 in operating capital. Additionally, an unsecured amendment for $17,448.14 was added to this note to reimburse Mr. Reigle for Board of Director approved health insurance. Due to the cash flow challenges of the cooperative at the time, Mr. Reigle volunteered to pay his own insurance premiums until the cooperative could afford to start paying his premiums and then reimburse him for past payments. This repayment was added to his December 31, 2007 note in October of 2008.

On August 14, 2009, the Allband Board of Directors approved a second unsecured note for $25,000 from Mr. Reigle. This note was issued for funds needed to pay 2009 annual property taxes. At that time, Allband did not have the funds required to pay the full balance of the taxation and was in the process of correcting its budget so that cash could be accrued for payment throughout the year. Because the original loan forecast did not include this high level of taxation, Allband continued to struggle with the large payable which intensified cash flow difficulties in 2009 due to a smaller than expected federal recovery. Mr. Reigle again understood the cooperative's immediate financial needs and graciously loaned another $25,000 to the cooperative.

In January of 2010, Mr. Reigle again offered working capital to the cooperative for fees associated with the marketing activities needed to increase the Cooperative's access lines. Allband had to quickly improve its marketing reach and hired a professional firm called CAP to survey, visit, call, write and seek out new subscribers in the Robbs Creek Exchange. Mr. Reigle loaned the cooperative additional funds to pay CAP and an amendment for $15,000 was added to Mr. Reigle's August 12, 2009 note.

Finally, in the same amendment, $2,507.63 in travel reimbursements was added to Mr. Reigle's August 12, 2009 note for a critical trip to Washington D.C. where Allband met with the FCC and RUS.

Mr. Reigle, President and Founder of the cooperative has donated much of his valuable time to Allband and still desires to see Allband continue its mission of serving the unserved. Since the cooperative was started, Mr. Reigle has remained the only member to invest money in the cooperative and has single-handily saved the cooperative from financial hardship on several occasions.

Mr. Reigle's loans will be paid in full by the end of July 2012. Allband's USF amounts are not impacted by any of these loans, the payoff of the loans or the interest paid on the loans.

8. ***RUS provided some financing for operating expenses (confirm that's the difference between the draw on the RUS loan as of December 31, 2010, and the reported gross plant including telecommunications plant under construction).***

   Per **Attachment #6**, RUS approved $731,355 in operating capital from Allband's loan to assist with start-up funds needed to operate Allband in its initial years of development. Since USF recovery is a retroactive mechanism, start-up funds were required while Allband obtained necessary USF waivers from the FCC and worked with NECA to be included in the pool. This information supports how dependent Allband was and still is, on its USF recovery. Allband stated on its audited 2010 financials $6,894,223 in account 4210.1 (gross plant) and drew $7,235,721 of its RUS loan, a difference of $341,498. This difference is due to operating money received from the loan, and operating capital that was actually used for expenses related to gross plant maintenance.

9. ***Status of the AARA grants totaling $9.7 million awarded as part of USDA's Broadband Initiative Program to extend broadband to customers outside of the incumbent study area (amounts disbursed to date, status of construction, number of new subscribers to date, services offered, projections for number of subscribers ultimately to be served, Allband offers non-regulated services through Allband Multimedia subsidiary and partners with CLECs for numbers).***

   To date, Allband has disbursed $2,324,115.22 in grant funds. Due to environmental review delays, Allband was not able to start major construction on its larger grant until 2012 and has been constructing new plant for approximately 2 months. Allband has completed construction of its smaller grant in the community of Mikado, where 65 broadband subscribers are currently served. By the end of the 2014, Allband expects to have approximately 800-900 unregulated broadband subscribers outside of its Robbs Creek exchange. Allband will offer three tiers of high-speed Internet and a telephone VoIP alternative.

In order to provide telephone service, Allband has partnered with a Michigan CLEC who will be providing numbering at a wholesale rate. These services are offered through Allband Multimedia, a wholly owned subsidiary of the Cooperative.

Please note that Allband carefully forecasted the financial viability of its ARRA project upon applying for the grant. The new non-regulated plant was designed with separation in mind, meaning that there is no overlap in regulated and non-regulated plant and equipment.

The pro-forma submitted to RUS with the grant application was contingent upon maintaining current levels of USF support, with Allband Multimedia revenues earmarked for non-regulated business activity and further expansion into areas that still do no have access to broadband service. Therefore, revenue generated by the ARRA expansion cannot be reallocated to subsidize a loss of USF funding, as it would cause Allband's ARRA project to ultimately fail. Currently, Allband is operating at a loss with Allband Multimedia and expects to until 2014 when most new subscribers will be activated upon the conclusion of grant construction. A newly updated forecast **Attachment 7** has been included to demonstrate losses in 2012 and 2013. Per the forecast, Allband will not incur enough unregulated revenue to support both its regulated and non-regulated activities through 2013.

10. ***Details on the $9.99/month plan for customers that only require 911 access and the ability to receive incoming calls (number of subscribers, limits on how long customers can stay on this plan, customers can drop to this plan from other plans at no charge, tariffed charges to connect/disconnect new service).***

Allband's exchange is a mix of full-time residents and seasonal customers. In an effort to provide 911 to all residents, increase access lines and increase revenue, a seasonal option was developed for $9.99 per month at the inception of the Cooperative. This plan limited customers to strictly 911 service and did not include the ability to make and receive phone calls other than outgoing 911 calls. The seasonal plan was limited to 6 months annually and a transition fee was not charged. Please note that Allband, as a cooperative, required all of its members to subscribe to basic telephone in order to receive high-speed Internet.

Recently, Allband revised its plans, by adding a limited service and is as follows:

Standard Service: $19.90 per month includes calling features such as voicemail, call waiting, caller ID and unlimited local calls.

Basic Service: $10.00 per month, includes the ability to make and receive calls, long distance rates apply on a per minute basis, unlimited local calling, no calling features. Unlimited long distance packages cannot be paired with this plan.

To date, Allband has 9 subscribers on this plan.

911 Service: $6.99 per month, no outgoing calls other than 911, no incoming calls. To date, Allband has 22 subscribers on this plan. A six-month limitation still applies to this plan.

Subscribers are allowed to change their plan 4 times per year in consideration of Labor Day, Memorial Day, 4th of July and deer season. Additional plan change requests incur a tariffed charge of $35 per change, which is Allband's standard disconnect/reconnect fee.

If you require further clarification or have additional questions, please do not hesitate to contact me directly.

Sincerely,

Ron K. Siegel
General Manager

Allband Questions

Additional information:

Audited financial statements for 2011.

More details on corporate operations expenses and the growth of company (copies of any materials provided to RUS regarding expenditures).

More details on accounts payable (who are these payable to).

More details on materials and supplies on hand, i.e. inventory list summarized by types of materials and supplies (year end 2011 or current, whichever is easier), dollar amount of fiber in service, and RUS requirements regarding spares.

Copies of loan agreements with John Reigle.

Summarize in ex parte what was discussed and provide more details as indicated:

The details regarding the ownership of the one building which is used as a central office/storage space and the leasing of the second building which is used for administrative space, and that Allband leases the building and equipment to install fiber (vehicles, backhoe, ploughs) from Northeast Michigan.

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ALLBAND COMMUNICATIONS COOPERATIVE AND SUBSIDIARY
(A Michigan Mutual Company)

CURRAN, MICHIGAN

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

DECEMBER 31, 2011 AND 2010

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CONTENTS

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JENNIFER E RIVERA, CPA
DAVID M SUNDEN, CPA

March 14, 2012

To the Board of Directors
Allband Communications Cooperative
7251 Cemetery Road
Curran, Michigan 48728

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying consolidated balance sheet of ALLBAND COMMUNICATIONS COOPERATIVE AND ITS WHOLLY OWNED SUBSIDIARY (A Michigan Mutual Company) as of December 31, 2011 and 2010, and the related statements of operations, changes in members' equity, and cash flows for the years then ended. These financial statements are the responsibility of Allband Communications Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Allband Communications Cooperative and its wholly owned subsidiary at December 31, 2011, the results of its consolidated operations, and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplementary information on pages 13 through 23 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

In accordance with Government Auditing Standards, we have also issued a report dated March 14, 2012, on our consideration of Allband Communications Cooperative's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Respectfully submitted,

Lally Group, PC

ALLBAND COMMUNICATIONS COOPERATIVE AND SUBSIDIARY
(A Michigan Mutual Company)
CURRAN, MICHIGAN

CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2011 AND 2010

ASSETS

	2011	2010
CURRENT ASSETS:		
Cash and cash equivalents	$ 191,750	$ 130,890
Accounts receivable - telecommunications	359,947	139,483
Materials and supplies	203,088	288,548
Loan origination fees - current	2,750	2,750
Prepayments	4,419	4,815
Total current assets	761,954	566,486
NONCURRENT ASSETS:		
Deferred loan costs	36,437	39,187
PROPERTY, PLANT, AND EQUIPMENT:		
Telecommunications plant in service	6,904,391	6,657,254
Telecommunications plant under construction	2,290,862	236,969
	9,195,253	6,894,223
Less: Accumulated Depreciation	1,330,978	984,868
Net book value	7,864,275	5,909,355
Total assets	$ 8,662,666	$ 6,515,028

(The accompanying notes are an integral part of these financial statements)

LIABILITIES AND MEMBERS' EQUITY

		2011		2010
CURRENT LIABILITIES:				
Accounts payable	$	813,444	$	597,934
Accounts payable - related party		60,212		60,212
Current portion - RUS debt		311,862		260,000
Current portion - John Reigle debt		151,008		26,760
Accrued income taxes		22,000		0
Accrued taxes		10,472		5,614
Total current liabilities		1,368,998		950,520
OTHER LONG-TERM LIABILITIES:				
Deferred grant revenue		1,702,743		0
LONG-TERM DEBT - less current portion:				
RUS mortgage notes		6,355,497		6,426,567
John Reigle note payable		0		53,954
Total long-term liabilities		6,355,497		6,480,521
TOTAL LIABILITIES		9,427,238		7,431,041
MEMBERS' EQUITY:				
Memberships issued		3,080		2,980
Non-Patronage capital (deficit)		3,916		0
Patronage capital (deficit)		(771,568)		(918,993)
Total members' equity (deficit)		(764,572)		(916,013)
Total liabilities and members' equity	$	8,662,666	$	6,515,028

(The accompanying notes are an integral part of these financial statements)

ALLBAND COMMUNICATIONS COOPERATIVE AND SUBSIDIARY

CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
OPERATING REVENUES:		
Basic local network services	$ 38,532	$ 36,617
Network access services	1,576,460	1,331,465
Long distance	32,971	22,907
Internet revenue	26,519	28,394
Miscellaneous	29,052	3,447
Total operating revenues	1,703,534	1,422,830
OPERATING EXPENSES:		
Plant specific operations	242,152	164,314
Plant nonspecific operations	141,826	72,348
Depreciation and amortization	369,079	337,106
Customer operations	21,704	7,252
Corporate operations	415,186	378,467
Total operating expenses	1,189,947	959,487
GROSS OPERATING INCOME (LOSS)	513,587	463,343
OPERATING TAXES:		
Other operating taxes	103,976	70,249
OPERATING INCOME (LOSS)	409,611	393,094
NONOPERATING INCOME (DEDUCTIONS):		
Interest income	59	48
Interest expense - RUS	(336,917)	(307,391)
Interest expense - other	(9,214)	(15,029)
Construction contract income	105,885	0
Federal income taxes	(22,000)	0
Other income (expense)	3,917	1,773
Total nonoperating income (deductions)	(258,270)	(320,599)
NET INCOME (LOSS)	$ 151,341	$ 72,495

(The accompanying notes are an integral part of these financial statements)

ALLBAND COMMUNICATIONS COOPERATIVE AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	MEMBERSHIP	PATRONAGE CAPITAL (DEFICIT)	NON-PATRONAGE CAPITAL (DEFICIT)	TOTAL
BALANCE - JANUARY 1, 2010	$ 2,520	$ (991,488)	$ 0	$ (988,968)
Memberships - net	460			460
Net income (loss)		72,495		72,495
BALANCE - DECEMBER 31, 2010	$ 2,980	$ (918,993)	$ 0	$ (916,013)
Memberships - net	$ 100	$ 0	$ 0	$ 100
Net income (loss)		147,425	3,916	151,341
BALANCE - DECEMBER 31, 2011	$ 3,080	$ (771,568)	$ 3,916	$ (764,572)

(The accompanying notes are an integral part of these financial statements)

ALLBAND COMMUNICATIONS COOPERATIVE AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
OPERATING ACTIVITIES:		
Net income (loss)	$ 151,341	$ 72,495
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	366,329	334,356
Amortization	2,750	2,750
Changes in operating assets and liabilities:		
(Increase) Decrease in:		
Accounts receivable	(220,464)	(119,370)
Inventories	85,460	41,549
Other current assets	396	2,447
Increase (Decrease) in:		
Accounts payable	215,510	(290,037)
Accounts payable - NECA	0	(27,035)
Accrued income taxes	22,000	0
Accrued taxes	4,858	1,896
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	628,180	19,051
INVESTING ACTIVITIES:		
Purchase of property, plant, and equipment	(2,325,049)	(494,165)
Proceeds from sale of equipment	3,800	0
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	(2,321,249)	(494,165)
FINANCING ACTIVITIES:		
Increase in memberships	100	460
Proceeds from borrowings on long-term debt - RUS	360,929	798,229
Proceeds from grant	1,702,743	0
Principal payments on long-term debt	(309,843)	(276,222)
NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	1,753,929	522,467
(DECREASE) IN CASH AND CASH EQUIVALENTS	60,860	47,353
CASH AND CASH EQUIVALENTS - BEGINNING	130,890	83,537
CASH AND CASH EQUIVALENTS - ENDING	$ 191,750	$ 130,890
SUPPLEMENTAL DISCLOSURES:		
Interest paid ($0 and $14,250 capitalized respectively)	$ 346,131	$ 336,670
Income taxes paid	$ 0	$ 0

(The accompanying notes are an integral part of these financial statements)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Allband Communications Cooperative and subsidiary (herein referred to as "the Cooperative") provides telecommunication services to member subscribers in the northeast portion of the lower peninsula of Michigan.

The accounting records of the Cooperative are maintained in accordance with the Uniform System of Accounts for Class A and B Telephone Companies prescribed by the Public Service Commission of Michigan, which conform to accounting principles generally accepted in the United States of America (US GAAP).

The consolidated financial statements include the accounts of the Cooperative and its wholly owned subsidiary, Allband Multimedia, LLC. All material intercompany accounts and transactions are eliminated in consolidation.

Subsequent Events -

Management has evaluated subsequent events through March 14, 2012, the date the financial statements were available for issue.

Income Tax Status –

The Cooperative operates as a Section 501(c)(12) Corporation as defined by the Internal Revenue Code. The Cooperative files income tax returns in the U.S. federal jurisdiction. The statute of limitations is generally three years for federal returns.

Concentrations of Credit Risk –

The Cooperative grants credit to member subscribers, substantially all of whom are located in the Curran, Michigan area. The Cooperative will also grant credit to connecting toll companies located throughout the United States.

The Cooperative received 93% of its 2011 revenues from access revenues and assistance provided by the Federal Universal Services Fund. As a result of the Telecommunications Act of 1996, the manner in which access revenues and Universal Service Funds are determined, is currently being modified by regulatory bodies. The FCC adopted an order reforming the Universal Service Fund and Intercarrier Compensation. The details of that order have been released over time and some pieces are still open to further rulemaking or review. However, we believe that there is concern our revenues from these sources will be drastically reduced during the ensuing years. The Cooperative has filed a waiver with the FCC challenging the new order and its effect on rural telephone companies. At this time, the results of this waiver are not able to be know or accounted for in the current year.

Use of Estimates -

The process of preparing financial statements in conformity with US GAAP requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Cash and Cash Equivalents -

All investments that mature in three months or less are classified as cash equivalents.

Accounts Receivable -

Accounts receivable are carried at their estimated collectible amounts. Trade credit is generally extended on a short-term basis, thus accounts receivable do not bear interest. Accounts receivable are periodically evaluated for collectability based on past credit history with customers. No allowance for bad debts was recorded by management as of December 31, 2011 and 2010.

Materials and Supplies -

All materials and supplies are valued at the lower of cost or current market value on the specific identification basis. Materials and supplies consist primarily of fiber cable purchased for future plant construction.

Telephone Plant and Depreciation -

Telephone plant in service and under construction is capitalized at original cost. The Cooperative provided for depreciation on a straight-line basis at annual rates which will amortize the depreciable property over its estimated useful life.

At the time the plant is retired, the retirements credited to telephone plant together with removal costs less salvage are charged to the depreciation reserve unless the retirement is of an extraordinary or abnormal nature.

No gains or losses are recognized in connection with routine retirements of depreciable property. Repairs and renewals of minor items of property are included in plant specific operations expense.

Deferred Loan Costs -

Deferred loan costs are amortized on a straight-line basis over the term of the loan. Amortization of deferred loan costs is expected to be $2,750 for each of the next five years.

Revenue Recognition -

Toll service revenues, access revenues, and local service revenues are recognized when earned, regardless of the period in which they are billed.

The Cooperative receives interstate settlements for providing access service from the National Exchange Carrier Association (NECA). Interstate access settlements are based on average nation-wide settlements. Intrastate rates are set based upon interstate rates.

Maintenance -

Accounting for maintenance and repairs was in conformity with the Uniform System of Accounts prescribed by the Michigan Public Service Commission.

2. INVESTMENT IN TELEPHONE PLANT AND CABLE ASSETS:

Telephone plant in service was stated at cost. Listed below are the major classes of the telephone plant as of December 31, 2011 and 2010:

	2011	2010
Land	$ 9,887	$ 9,887
Buildings	269,699	269,699
General purpose computers	4,087	4,087
Office equipment	19,700	19,700
Network equipment	864,336	888,356
Cable	5,648,749	5,380,997
Vehicles	36,674	36,674
Other work equipment	51,259	47,854
Telephone plant in service	$6,904,391	$6,657,254

The Cooperative provided for depreciation on a straight-line basis at annual rates, which will amortize the depreciable property over its estimated useful life. The projected composite depreciation rate is approximately 5.3% during the first six years. Estimated useful life for the major asset classes are as follows:

Buildings	20 Years
General purpose computers	10 Years
Network equipment	10 Years
Cable	22 Years
Other work equipment	15 Years

3. LONG-TERM DEBT:

Long-term debt consists of notes payable to the United States of America through the Rural Utilities Service (RUS). The notes are collateralized by substantially all of the telephone plant. The loan allowed draws until October 2011, with a total loan amount of $8,067,000; the interest rate on the loan is 5% per annum. As of December 31, 2011, the loan balance was $6,667,359.

Scheduled maturities of existing RUS long-term debt for each of the next five years are as follows:

2012	$311,862
2013	$327,799
2014	$344,600
2015	$362,200
2016	$380,700

3. LONG-TERM DEBT: (continued)

The mortgage to the United States of America, underlying the RUS notes, contains certain restrictions on the declaration or payment of cash dividends, redemption of capital stock, or investment in affiliated companies except as might be specifically authorized in writing in advance by the RUS note holders. All assets are pledged as security for the long-term debt to RUS.

At December 31, 2011, the Cooperative met the minimum times interest earned ratio (TIER) as defined in Section 5.12 of the RUS loan agreement. At December 31, 2010, the Cooperative did not meet the minimum times interest earned ratio (TIER) as defined in Section 5.12 of the RUS loan agreement.

Under the provisions of the loan contract, advances of loan funds shall be deposited in a special construction account and held in trust for the government until disbursed. The loan contract restricts disbursements to such expenditures as RUS may authorize. All payments from the trust accounts are subject to RUS approval.

The Cooperative's loan from John Reigle for 2011 and 2010 totaled $151,008 and $80,714, respectively. Payments including interest at 11% are to be paid monthly. The loan is unsecured.

Scheduled maturities of existing additional long-term debt for each of the next five years are as follows:

2012	$151,008

4. INTEREST COST:

The Cooperative follows the policy of capitalizing interest as a component of the cost of property, plant, and equipment constructed for its own use. This allowance for funds used during construction ("AFUDC") for 2011 and 2010 amounted to $0 and $14,250, respectively.

5. RELATED PARTY TRANSACTIONS:

During 2007, management awarded back pay for reaching certain performance targets to both current and former employees. The unpaid balance was $60,212 and $60,212 at December 31, 2011 and 2010, respectively.

6. OPERATING LEASES:

Circuit equipment: Total circuit equipment lease expense for 2011 and 2010 was $36,754 and $39,701, respectively.

Equipment: Total equipment lease expense for 2011 and 2010 was $75,302 and $70,185, respectively.

Building: Total building lease for 2011 and 2010 was $49,718 and $44,086, respectively.

Future minimum lease payments for the four succeeding years are as follows:

2012	$140,083
2013	$141,606
2014	$143,175
2015	$144,790

7. FEDERAL INCOME TAX STATUS:

This Cooperative operates as a tax-exempt corporation as defined by the Internal Revenue Code Section 501(c)(12). One of these requirements is that the Cooperative must obtain 85% or more of their gross revenues from members. The Cooperative did not meet this requirement for December 31, 2011, and incurred a tax of $22,000.

8. RECLASSIFICATIONS:

Certain reclassifications have been made to the 2010 financial statement presentation to correspond to the current year's format. Previously reported total equity and net income are unchanged due to these reclassifications.

9. ARRA GRANT:

During 2010, Allband Communications Cooperative was awarded two grants as part of the USDA's Broadband Initiatives Program. The total of these grants is $9,730,657. The funds are to be used to provide internet service to unserved areas within 3 years. As of December 31, 2011, the Cooperative has plant under construction pertaining to ARRA in the amount of $2,290,862 and has received $1,702,743 in grant receipts.

SUPPLEMENTARY INFORMATION

ALLBAND COMMUNICATIONS COOPERATIVE AND SUBSIDIARY
(A Michigan Mutual Company)
CURRAN, MICHIGAN

CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2011

ASSETS

	Allband Communications Cooperative	Allband Multimedia, LLC	Eliminations	Consolidated
CURRENT ASSETS:				
Cash and cash equivalents	$ 182,511	$ 9,239	$ 0	$ 191,750
Accounts receivable - telecommunications	354,842	5,105		359,947
Accounts receivable - affiliate	67,402		67,402	0
Materials and supplies	203,088			203,088
Loan origination fees - current	2,750			2,750
Prepayments	4,419			4,419
Total current assets	815,012	14,344	67,402	761,954
NONCURRENT ASSETS:				
Deferred loan costs	36,437			36,437
Investment - affiliated	(53,058)		(53,058)	0
Total noncurrent assets	(16,621)	0	(53,058)	36,437
PROPERTY, PLANT, AND EQUIPMENT:				
Telecommunications plant in service	6,904,391			6,904,391
Telecommunications plant under construction	2,290,862			2,290,862
	9,195,253	0	0	9,195,253
Less: Accumulated depreciation	1,330,978			1,330,978
Net book value	7,864,275	0	0	7,864,275
Total assets	$ 8,662,666	$ 14,344	$ 14,344	$ 8,662,666

(The accompanying notes are an integral part of these financial statements)